August 20, 2024

Federal Reserve Board of Governors
Attn: Ann E. Misback, Secretary of the Board
Mailstop M-4775
2001 C Street NW
Washington, DC 20551

Office of Management and Budget
Attn: Office of Management and Budget Desk Officer for the Federal Reserve Board
Office of Information and Regulatory Affairs
New Executive Office Building, Room 10235
725 17th Street NW
Washington, DC 20503

Re: Proposed Agency Information Collection Activities Comment Request; FR Y-14A/Q/M; OMB No. 7100-0341; Document Number 2024-13798; 89 FR 52042 (June 21, 2024)

Dear Ladies and Gentlemen:

Better Markets[1] appreciates the opportunity to comment on the proposed requirements ("Proposal") for enhanced regulatory reporting of lending to nondepository financial institutions ("nonbanks") on the Capital Assessments and Stress Testing information collection ("FR Y-14") reports to the Federal Reserve Board of Governors ("Fed").[2]

Currently, there is far too little information collected and made available to regulators and the public about banks' lending to nonbanks. The Proposal would address this deficiency by expanding the Fed's existing reporting requirements for the FR Y-14 reports. It would apply to FR Y-14 filers—bank holding companies, savings and loan holding companies, and intermediate holding companies with at least $100 billion in total assets ("firms") and become effective for the September 30, 2024, quarterly submissions.

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1 Better Markets is a non-profit, non-partisan, and independent organization founded in the wake of the 2008 financial crisis to promote the public interest in the financial markets, support the financial reform of Wall Street, and make our financial system work for all Americans again. Better Markets works with allies—including many in finance—to promote pro-market, pro-business, and pro-growth policies that help build a stronger, safer financial system that protects and promotes Americans' jobs, savings, retirements, and more.

2 Proposed Agency Information Collection Activities Comment Request; FR Y-14A/Q/M; OMB No. 7100-0341; Document Number 2024-13798; 89 FED. REG. 52042 (June 21, 2024), https://www.federalregister.gov/documents/2024/06/21/2024-13798/proposed-agency-information-collection-activities-comment-request.

Collecting additional data is needed for three main reasons:

1. the population of nonbanks is broad and includes a heterogeneous set of entities that comprise a substantial and important share of the US financial system; more data will allow for a better understanding of the risks associated with bank lending to nonbanks;

2. lending to nonbanks—and therefore the associated risk—has grown substantially; and

3. lending to nonbanks—and the associated risk—is concentrated among some of the largest and most systemically important firms.

For these reasons, we fully support the Proposal and urge the Fed to implement the new data collection as planned on September 30, 2024. Obtaining more granular data on lending to nonbanks will enable the Fed to better understand firms' exposure to nonbanks and the risks associated with this activity. With this understanding, the Fed can work to properly regulate and supervise these exposures and protect our financial system and the American people.

We also believe that the Proposal could be strengthened in the following ways that are discussed further below:

1. <u>Maintain regulatory awareness of outsized nonbank lending concentrations among firms with total assets below $100 billion, as these could also threaten financial stability</u>.

2. <u>Make the data publicly available so that members of the public as well as regulators can understand risks at the largest, systemically important firms</u>.

BACKGROUND

Nonbanks are defined by the Financial Stability Board ("FSB") as financial companies *that are not* central banks, banks, or public financial institutions.[3] The term includes a wide range of entities such as insurance companies, mortgage companies, private equity funds, hedge funds, broker-dealers, and many more. Even with a slight decline in 2022, the FSB estimated that nonbanks collectively have more than $200 trillion in total assets and account for about half of global financing activities (see Chart 1).[4] Furthermore, since 2012, nonbanks' share of global assets has increased while banks' share has declined.[5]

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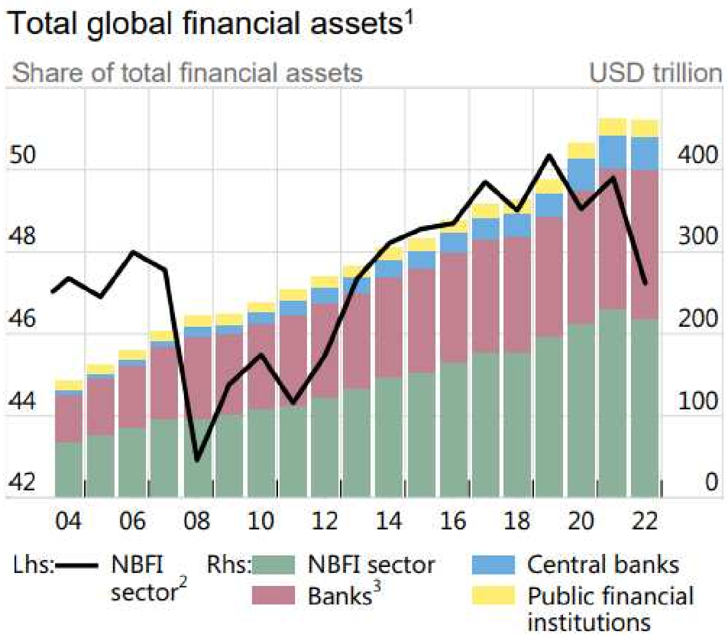
3 Financial Stability Board, Global Monitoring Report on Non-Bank Financial Intermediation 3 (Dec. 18, 2023), https://www.fsb.org/2023/12/global-monitoring-report-on-non-bank-financial-intermediation-2023/.

4 *Id.* at 7.

5 Viral V. Acharya, Nicola Cetorelli, & Bruce Tuckman, *Where Do Banks End and NBFIs Begin?*, NBER Working Paper 32316, at 1 (Apr. 2024), https://www.nber.org/system/files/working_papers/w32316/w32316.pdf.

Chart 1



[1] Includes data for Russia up until 2020. [2] Nonbank financial intermediation (NBFI) includes insurance corporations, pension funds, other financial intermediaries, and financial auxiliaries. [3] All deposit-taking corporations.

Banks—especially global systemically important banks ("GSIBs")—lend to nonbanks to finance and facilitate their operations. Lending to nonbanks has increased dramatically and outpaced all other major loan categories in recent years.[6] In its Financial Stability Report, the Fed reported that credit commitments to nonbanks exceeded $2 trillion in 2023 (see Chart 2).[7] Simply put, banks and nonbanks have become increasingly interconnected; the rapid growth of nonbanks directly depends on funding from banks.[8] At the same time, stress at nonbanks can be directly transferred to banks through these funding linkages.[9]

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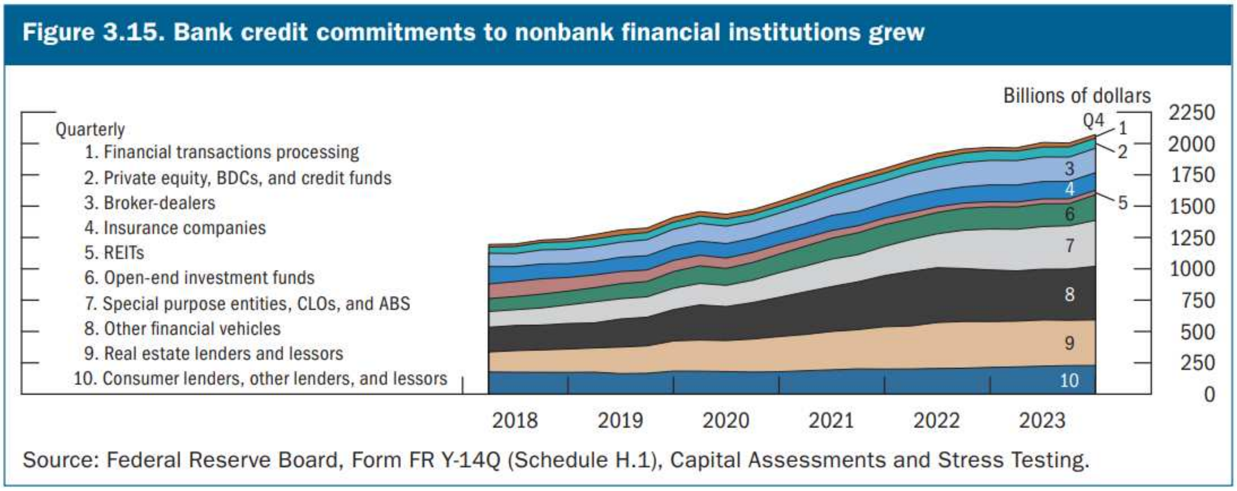
6 *See, e.g.*, FEDERAL DEPOSIT INSURANCE CORPORATION, RISK REVIEW 53 (2024), https://www.fdic.gov/system/files/2024-07/2024-risk-review-full.pdf; Proposed Agency Information Collection Activities Comment Request; OCC 1557–0081; Document Number 2023-28473; 88 FED. REG. 89489 (Dec. 27, 2023), https://www.federalregister.gov/documents/2023/12/27/2023-28473/proposed-agency-information-collection-activities-comment-request; Better Markets Comment Letter, *Proposed Agency Information Collection Activities Comment Request* (Feb. 26, 2024), https://bettermarkets.org/wp-content/uploads/2024/02/Better-Markets-Comment-Letter-Nonbank-Data-Collection.pdf.

7 BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, FINANCIAL STABILITY REPORT 34 (Apr. 2024), https://www.federalreserve.gov/publications/files/financial-stability-report-20240419.pdf.

8 Viral V. Acharya, Nicola Cetorelli, & Bruce Tuckman, *Nonbanks Are Growing but Their Growth Is Heavily Supported by Banks*, FEDERAL RESERVE BANK OF NEW YORK: LIBERTY STREET ECONOMICS (June 17, 2024), https://libertystreeteconomics.newyorkfed.org/2024/06/nonbanks-are-growing-but-their-growth-is-heavily-supported-by-banks/.

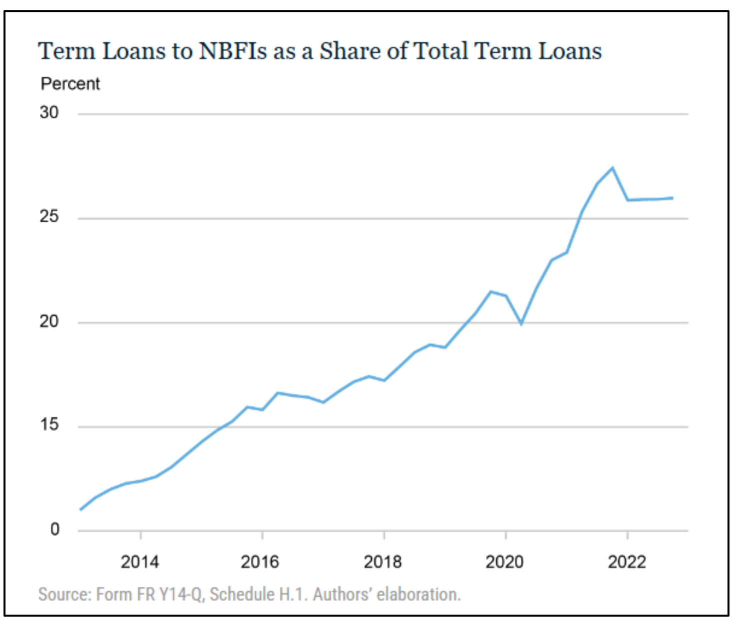
9 *Id.*

Chart 2



About one-quarter of banks' credit commitments to nonbanks are in the form of outstanding term loans to nonbanks and three-quarters of the exposure is in the form of committed but undrawn credit lines to nonbanks.[10] In other words, firms' exposures to nonbank lending could increase substantially if nonbanks draw on committed lines. However, even at current levels, concentrations are sizable, with term loans to nonbanks representing more than 25% of total term loans in 2023, up from nearly 0% in 2013 (see Chart 3).[11]

Chart 3

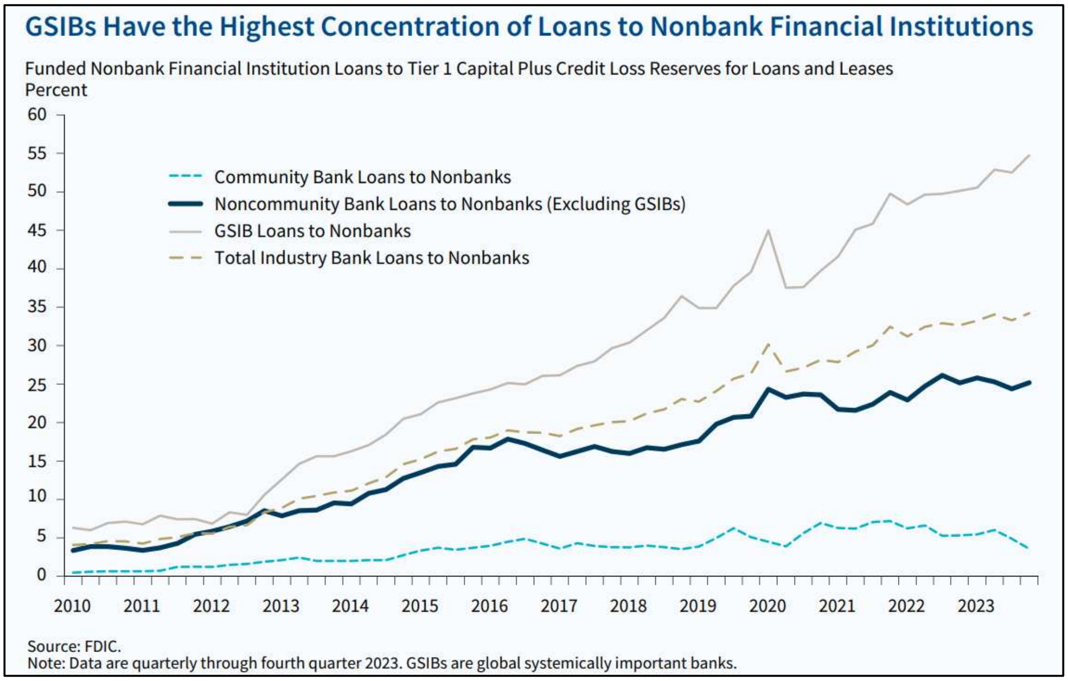


10 *Id.*

11 *Id.*

Lending to nonbanks is concentrated among the largest and most systemically important banks. In 2023, nonbank lending exceeded 50% of U.S. GSIB's Tier 1 capital, up from around 5% in 2010 (as indicated by the beige solid line at the top of Chart 4).[12] Lending to nonbanks has also increased substantially among other large banks that are not GSIBs (as indicated by the dark blue solid line in the middle of Chart 4) but has stayed relatively low and stable among community banks (as indicated by the light blue dashed line at the bottom of Chart 4).

Chart 4



While nonbanks have grown to be sizable players in the global financial ecosystem, they have also proven to be risky, volatile, and opaque. The unprecedented amount of emergency lending and financial support by the Federal Reserve and the U.S. Treasury extended to nonbanks—money market mutual funds, broker-dealers, the commercial paper market, and many more—in the aftermath of the COVID-19 pandemic proved how rapid and severe dislocations in the nonbank landscape can be. It also demonstrated the threat that these entities can pose to financial and economic stability.[13] The enormous support provided to nonbanks clearly reflected

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12 FEDERAL DEPOSIT INSURANCE CORPORATION, *supra* note 6 at 54.

13 *See, e.g.*, Dennis Kelleher & Phillip Basil, *The Increasing Dangers of the Unregulated "Shadow Banking" Financial Sector,* Better Markets (Mar. 24, 2022), https://bettermarkets.org/wp-content/uploads/2022/03/BetterMarkets_Report_Dangers_of_the_Shadow_Banking_System_March2022.pdf; Richard H. Clarida, Burcu Duygan-Bump, & Chiara Scotti, *The COVID-19 Crisis and the Federal Reserve's Policy Response*, Board of Governors of the Federal Reserve System, FIN. AND ECON. DISCUSSION SERIES 2021-035 (2021), https://www.federalreserve.gov/econres/feds/files/2021035pap.pdf; Eric Milstein & David Wessel, *What Did the Fed Do In Response to the COVID-19 Crisis?*, BROOKINGS INST. (Jan. 2, 2024), https://www.brookings.edu/articles/fed-response-to-covid19/.

policymakers' judgment that these entities were indeed systemically significant and the expenditure of large amounts of public resources was necessary and appropriate to protect the banking system and economy more broadly from the consequences of a nonbank collapse.

Like any exposure within banks' lending portfolio, the inherent risk of nonbanks will ***transfer back to the banks***, ultimately endangering financial stability, if nonbanks end up in distress, become unable to repay loans, face liquidity crises, or fail. Researchers from the Bank for International Settlements ("BIS") summarize:

> [L]iquidity provision by non-banks tends to be ***more opportunistic and more prone to evaporate at times of stress, with entities that generally provide liquidity suddenly turning into liquidity consumers***. . . .
>
> These structural shifts mean that liquidity imbalances have the potential to greatly affect prices and, in extreme cases, ***endanger financial stability***. The 'dash for cash' turmoil at the height of the Covid-19 crisis (when investors shifted away from risky assets to cash-like assets on a massive scale) painfully exposed such structural [nonbank] vulnerabilities and spillovers that affected other participants in the financial system. Ultimately, it was only central banks' flexible use of their balance sheets that arrested the adverse feedback loops and helped to restore market functioning.[14]

Put differently, without central bank intervention, numerous nonbanks would likely have collapsed during the pandemic, which could have at best stressed banks and at worst, caused a contagion of failures inevitably leading to crises, crashes, and even larger bailouts. It is, therefore, critical to have appropriate data and tools to identify, understand, and manage the accumulation of risky activities including bank lending to nonbanks before it reaches dangerous levels, which is why this Proposal is so important.

SUMMARY OF THE PROPOSAL

The Proposal would increase the granularity of required firm reporting to provide the Fed with a better understanding of the nature of nonbank lending exposures. Currently, the reporting on the FR Y-14 report that is required by firms' nonbank loans is limited, relative to the required reporting on corporate loans to nonfinancial businesses. This information gap impedes the Fed's ability to measure, monitor, and understand these nonbank exposures.[15]

Specifically, the Proposal would make two changes:

1. Substantially increase required reporting on nonbank loans, adding about 30 data elements from the balance sheet and income statement of nonbank borrowers to characterize the

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[14] Sirio Aramonte, Andreas Schrimpf, & Hyun Song Shin, *Non-Bank Financial Intermediaries and Financial Stability*, Bank for International Settlements Working Papers, No. 972, at 2-3 (Oct. 29, 2021), https://www.bis.org/publ/work972.htm (emphasis added).

[15] Proposed Agency Information Collection Activities Comment Request, *supra* note 2 at 52046.

financial health of the nonbank obligor or entity that is the primary source of repayment for the loan; and

2. Add a data field to the required reporting to further classify the nonbank entity type.[16]

As detailed earlier, the changes would be implemented beginning with the September 30, 2024, FR Y-14 reports.[17]

SUMMARY OF COMMENTS

We strongly support the addition of increased reporting on nonbank lending on the FR Y-14 for several reasons, as detailed earlier. Rapid growth in the nonbank lending sector, the resulting concentrations of lending to nonbanks among the largest and most systemically important firms, the inherent risk and volatility of the nonbank sector, and the potentially substantial negative impact on the broader financial system and economy all reinforce the need for more granular bank reporting. The enhanced transparency that the Proposal will bring will improve the ability of regulators to identify and address, as necessary, the accumulation of dangerous concentrations of risk related to firms' lending to nonbanks.

Furthermore, we recommend the Fed take additional actions to promote financial stability:

- Maintain regulatory awareness of outsized nonbank lending concentrations among banks with total assets below $100 billion, as these could also threaten financial stability. The Proposal would require additional reporting related to nonbank lending by all firms that file FR Y-14 reports. This framework will capture a significant share of the total lending to nonbanks. However, given the risk and volatility in the nonbank sector, financial regulators must also remain aware of any banks below the $100 billion asset threshold that develop material concentrations in nonbank lending and require closer scrutiny. Smaller banks typically have less experience and expertise and therefore may be less able to manage the risks of nonbank lending. Moreover, a better understanding of the risks stemming from nonbanks would be facilitated by requiring these data from a broader group of banks providing funding to nonbanks.

- Make the FR Y-14 data on nonbank lending publicly available so that members of the public as well as regulators can understand risks at the largest, systemically important firms. Currently, the FR Y-14 data are not publicly available; instead, high-level charts are only occasionally included in Fed reports. Given that nonbank lending has grown substantially and has been identified as a risk by the Financial Stability Oversight Council ("FSOC"), it is increasingly necessary to make this reporting public.

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16 *Id*.

17 Proposed Agency Information Collection Activities Comment Request, *supra* note 2 at 52043.

COMMENTS

I. MAINTAIN REGULATORY AWARENESS OF OUTSIZED NONBANK LENDING CONCENTRATIONS AMONG BANKS WITH TOTAL ASSETS BELOW $100 BILLION, AS THESE COULD ALSO THREATEN FINANCIAL STABILITY.

As explained earlier, nonbanks are a large, risky, and volatile segment of the financial system. Bank lending to nonbanks exposes the banks to this risk and volatility. The purpose of collecting additional data is to understand this exposure and limit or contain the resulting systemic vulnerabilities.

As shown in Chart 4, the largest banks indeed have the most exposure to nonbank lending. Therefore, we support the Proposal's standard that firms with $100 billion or more in total assets would be required to report more granular data on nonbank lending. However, given the risk and volatility in the nonbank sector, financial regulators must also remain aware of banks below the $100 billion size threshold that develop material concentrations in nonbank lending. Smaller banks typically have less experience and expertise, so additional regulatory attention is required to ensure these banks appropriately manage the risks they take on.

II. MAKE THE FR Y-14 DATA ON NONBANK LENDING PUBLICLY AVAILABLE SO THAT MEMBERS OF THE PUBLIC AS WELL AS REGULATORS CAN UNDERSTAND RISKS AT THE LARGEST, SYSTEMICALLY IMPORTANT FIRMS.

Currently, the FR Y-14 data on bank lending to nonbanks are not publicly available and this lack of transparency detracts from the goal of promoting financial stability. It is true that a limited number of charts displaying nonbank lending data in aggregate form appear in certain Fed reports, such as Chart 2 in this letter which comes from the Fed's annual Financial Stability Report.[18] Additionally, the Federal Reserve Bank of New York has developed research and other resources related to nonbanks.[19] These resources are certainly valuable, but consistent publicly available reporting would be much better and more supportive of financial stability.

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18 BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, *supra* note 7.

19 FEDERAL RESERVE BANK OF NEW YORK, NONBANK FINANCIAL INSTITUTIONS, https://www.newyorkfed.org/nonbank-financial-institutions (last visited Aug. 14, 2024).

Notably, ***the Fed has made an institutional commitment to provide greater transparency around confidential regulatory data from the FR Y-14 reports for other credit portfolios—namely credit card lending and mortgage lending***. The Federal Reserve Bank of Philadelphia hosts a dedicated website containing quarterly data, charts, and analysis on credit card and mortgage lending.[20] Therefore, it is clear that the Fed recognizes the value of the transparency that this resource provides. Transparency supports financial stability. It is not enough to collect data, lock it away, and only provide a select few people with the key.

Finally, the FSOC continues to identify risks related to nonbanks[21] and its authority to protect the financial system from nonbank threats was recently reinstated.[22] We strongly encourage the Agencies that comprise the FSOC to use this authority and get back to the business of identifying systemically important nonbank financial institutions and designating them as such so that they will be brought directly into the perimeter of the Federal Reserve's regulatory and supervisory oversight. It will be critical for all financial regulators, not just the select few that currently have access to the confidential FR Y-14 information, as well as the public, to have access to information on bank lending to nonbanks, both in aggregate and for individual firms to understand concentrations and exposures that have systemic risk implications.

[20] FEDERAL RESERVE BANK OF PHILADELPHIA, LARGE BANK CREDIT CARD AND MORTGAGE DATA, https://www.philadelphiafed.org/surveys-and-data/large-bank-credit-card-and-mortgage-data (last visited Aug. 14, 2024).

[21] *See, e.g.*, FINANCIAL STABILITY OVERSIGHT COUNCIL, REPORT ON NONBANK MORTGAGE SERVICING (2024), https://home.treasury.gov/system/files/261/FSOC-2024-Nonbank-Mortgage-Servicing-Report.pdf.

[22] *See, e.g.*, Press Release, U.S. Department of the Treasury, *FSOC Approves Analytic Framework for Financial Stability Risks and Guidance on Nonbank Financial Company Determinations* (Nov. 3, 2023), https://home.treasury.gov/news/press-releases/jy1876; Press Release, Better Markets, *We Applaud the FSOC's Decision to Reinstate Authority to End Systemic Threats from Nonbanks; Now It Must Act to Actually End Them* (Nov. 3, 2023), https://bettermarkets.org/newsroom/we-applaud-the-fsocs-decision-to-reinstate-authority-to-end-systemic-threats-from-nonbanks-now-it-must-act-to-actually-end-them/.

CONCLUSION

We hope these comments are helpful as the Fed moves expeditiously to finalize the Proposal.

Sincerely,

Shayna M. Olesiuk

Shayna M. Olesiuk
Director of Banking Policy
solesiuk@bettermarkets.org

Better Markets, Inc.
2000 Pennsylvania Avenue, NW
Suite 4008
Washington, DC 20006
(202) 618-6464
http://www.bettermarkets.org